

Long Term Ferry Finance Study

Part I Findings

presented to

Washington State Transportation Commission

presented by

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Presentation Overview

- Review study mandate and objectives
- Describe work steps completed to date
- Present findings of Phase 1 work
- Present recommended work plan for Phase 2
- Solicit guidance for next steps

Legislative Provisions

ESHB 1094, Section 206 – Transportation Commission

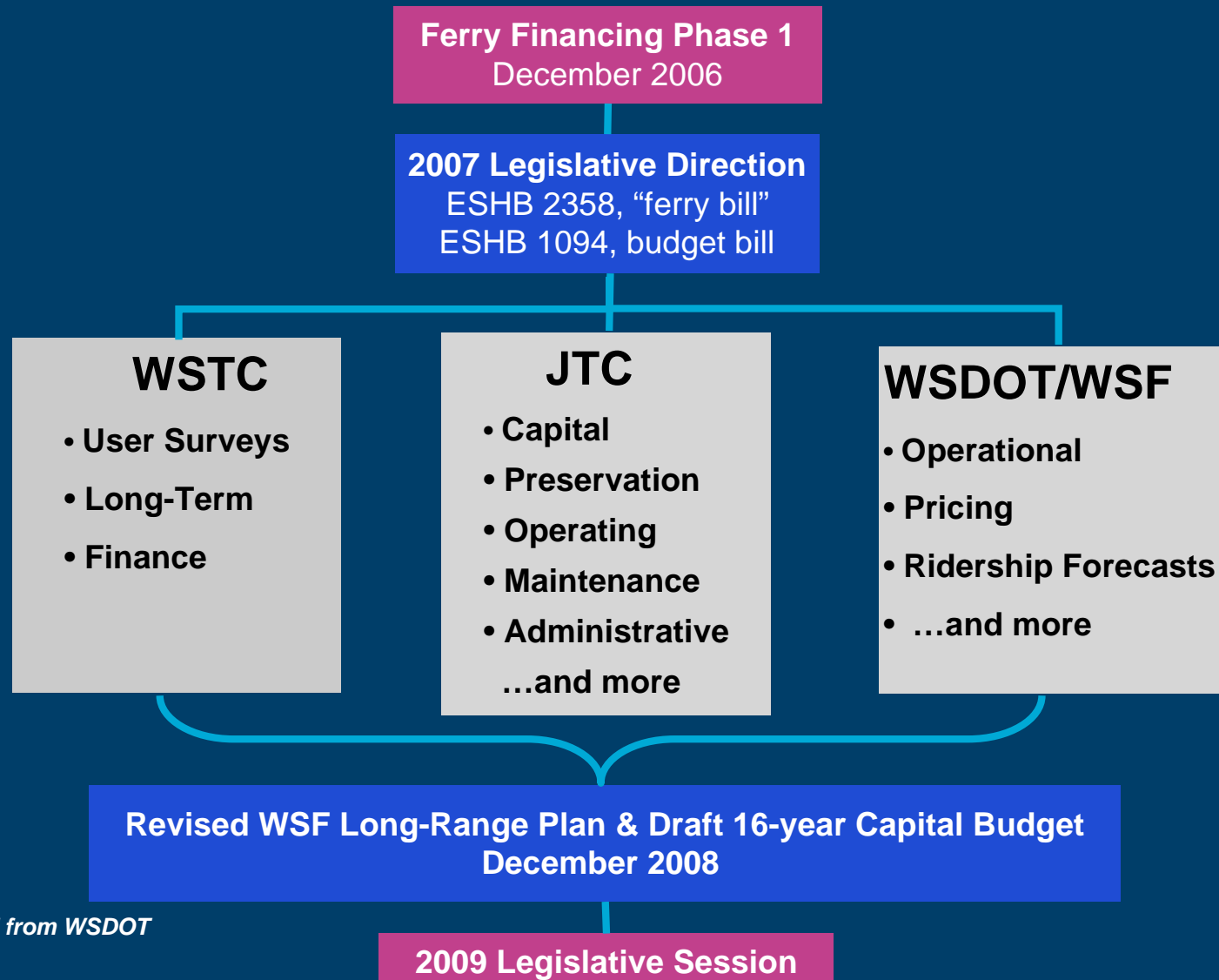
“\$100,000 of the motor vehicle account--state appropriation is provided solely for a study **long-term financing alternatives** to identify and evaluate for the Washington state ferry system. The study shall incorporate the findings of the initial [customer] survey...and shall **consider the potential for state, regional, or local financing options**. The commission shall submit a draft final report of its findings and recommendations to the transportation committees of the legislature no later than December 17 2008.”

(emphasis added)

Long-Term Finance Study Objectives

- **Synthesize existing information**
- **Identify and evaluate a range of state, regional and local financing options**
- **Develop selection of most viable options and requisite actions for stable, long-term finance package**
- **Present findings and recommendations to Transportation Committees in December 2008**

Ferry Finance Legislation *Work Program 2006-2009*



Adapted from WSDOT

Phase 1 Tasks

- Review of relevant finance studies
- Scan of other ferry systems
- Legal and regulatory review
- Stakeholder interviews
- Coordination with market survey and other work efforts
- Develop detailed Phase 2 work program and cost estimate
- Summary report, presentation of findings and recommended next steps

Financial Sources Reviewed

- HB 2358, adopted April 2007
- Long-Term Transportation Financing Study, 2007
- *Prospects for Washington State Ferries* (“Black Hole” report) 2007
- State of Washington Long-Range Transportation Plan, 2006
- Washington State Comprehensive Tolling Study, 2006
- WSF Financing Study Final Report, 2006
- WSF Draft Long-Range Strategic Plan, 2006
- Washington State Ferries Progress Report, 2001 to 2003
- Washington State Ferries Operations Report, 1999 to 2001
- Report of the Legislative Joint Task Force on Ferries, 2001

Evolution of Current Funding Gap

- Since 1960s, public subsidies used to close revenue gap
- Sources have included bridge tolls, gasoline sales taxes, fuel taxes, vehicle licenses and fees, and MVET
- MVET repealed in 2000 eliminating 20% of operating funds and 80% of capital funds
- Rising fuel, utility and insurance costs contributed to growing funding gap, particularly in recent years
- Vessel maintenance, rehabilitation and replacement cost estimates undergoing thorough reevaluation

Response to Date to Funding Gap

● Cost reductions

- Reduced WSF management and support positions by 30%
- Reduced service on selected routes
- Reduced capital expansion program – focus on preservation

● Fare increases

- Between 2001 and 2006 fares increased 62% overall
- Discontinued refunds on unused portions of farebooks

● Transfers

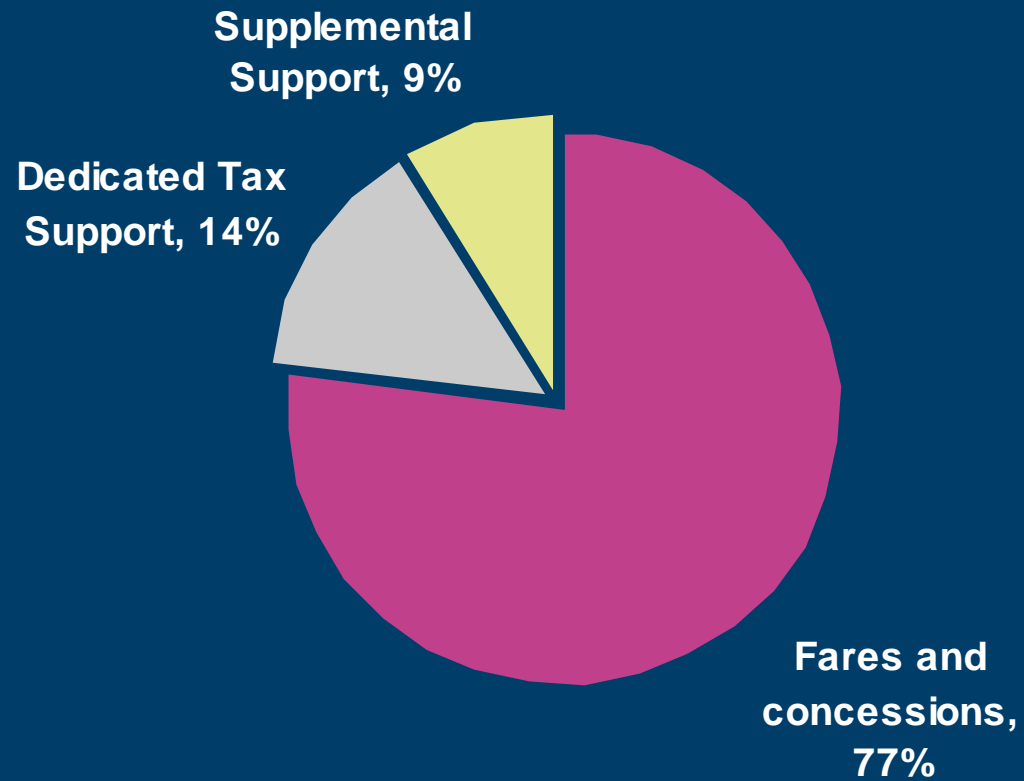
- Drew down \$109 million balance in operating account intended for expansion of passenger-only service
- Transfers from other accounts

Further Responses to Funding Gap

- 2002 “5+5+5 Business Plan” intended to stabilize financing at 90% farebox recovery
- “Nickel Package” approved in 2003, with \$300M for vessels and terminal construction
- 2005 Partnership Funding Package to provide about \$200M for ferry projects

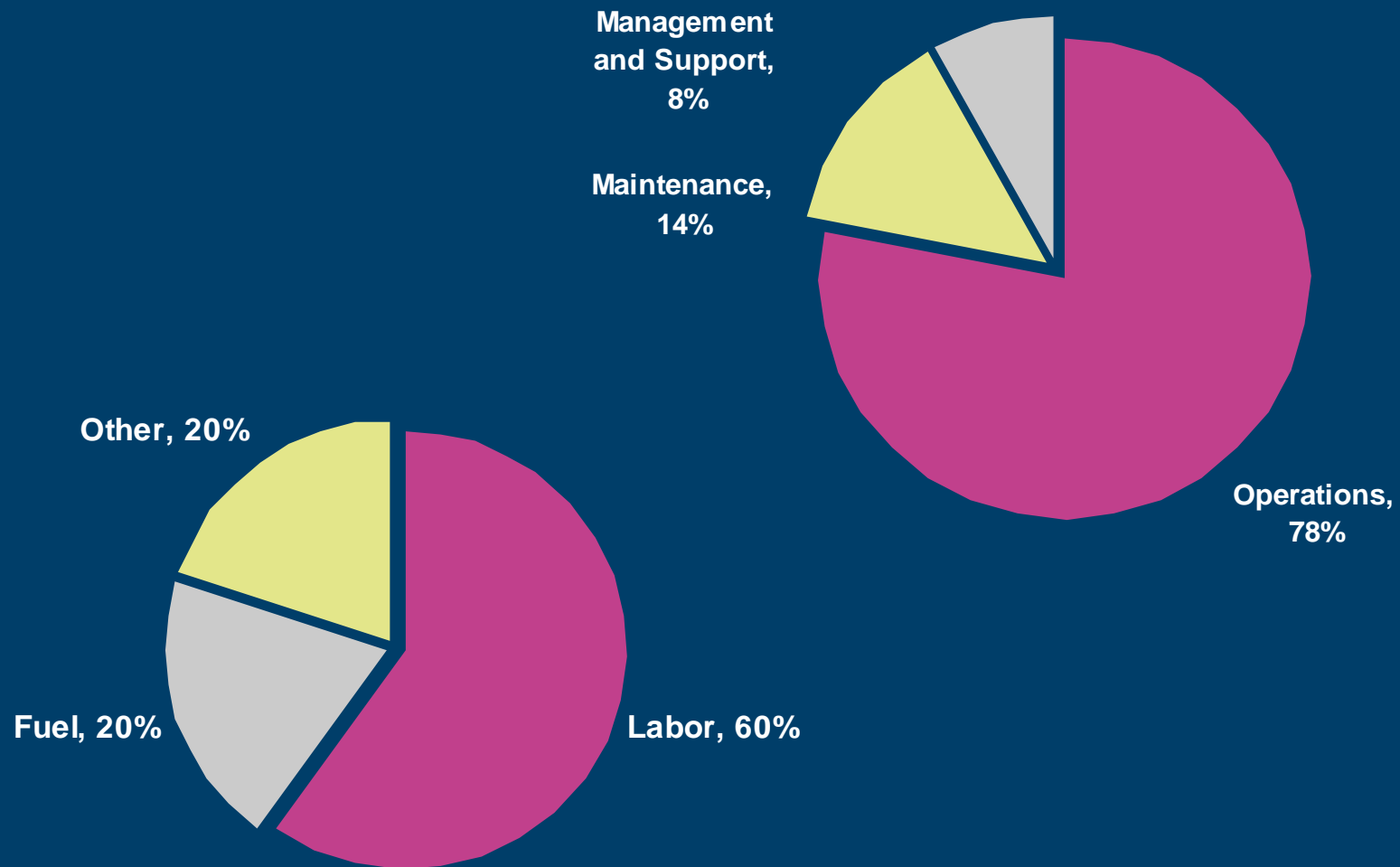
Sources of Operating Funds

2005-2007 Biennium



Use of Operating Resources: Two Looks

2005-2007 Biennium



Dedicated Capital Accounts

2005-2007 Biennium

Puget Sound Capital Construction Account

- Fuel tax
- Federal grants
- Bond proceeds
- Local funds*

Multimodal Account

- Sales tax on new and used vehicles
- Car rental fees
- Gross weight fee on passenger vehicles
- Annual motor home fee
- Federal grants
- 100% of treasury deposit earnings
- Other revenue

Nickel Account

- Fuel tax
- Combined licensing fee
- Bond proceeds
- 80% of treasury deposit earnings

Partnership Account

- Fuel tax
- Licenses, permits, and fees
- Bond proceeds

Transfers from Other Accounts

2005-2007 Biennium

Motor Vehicle Account

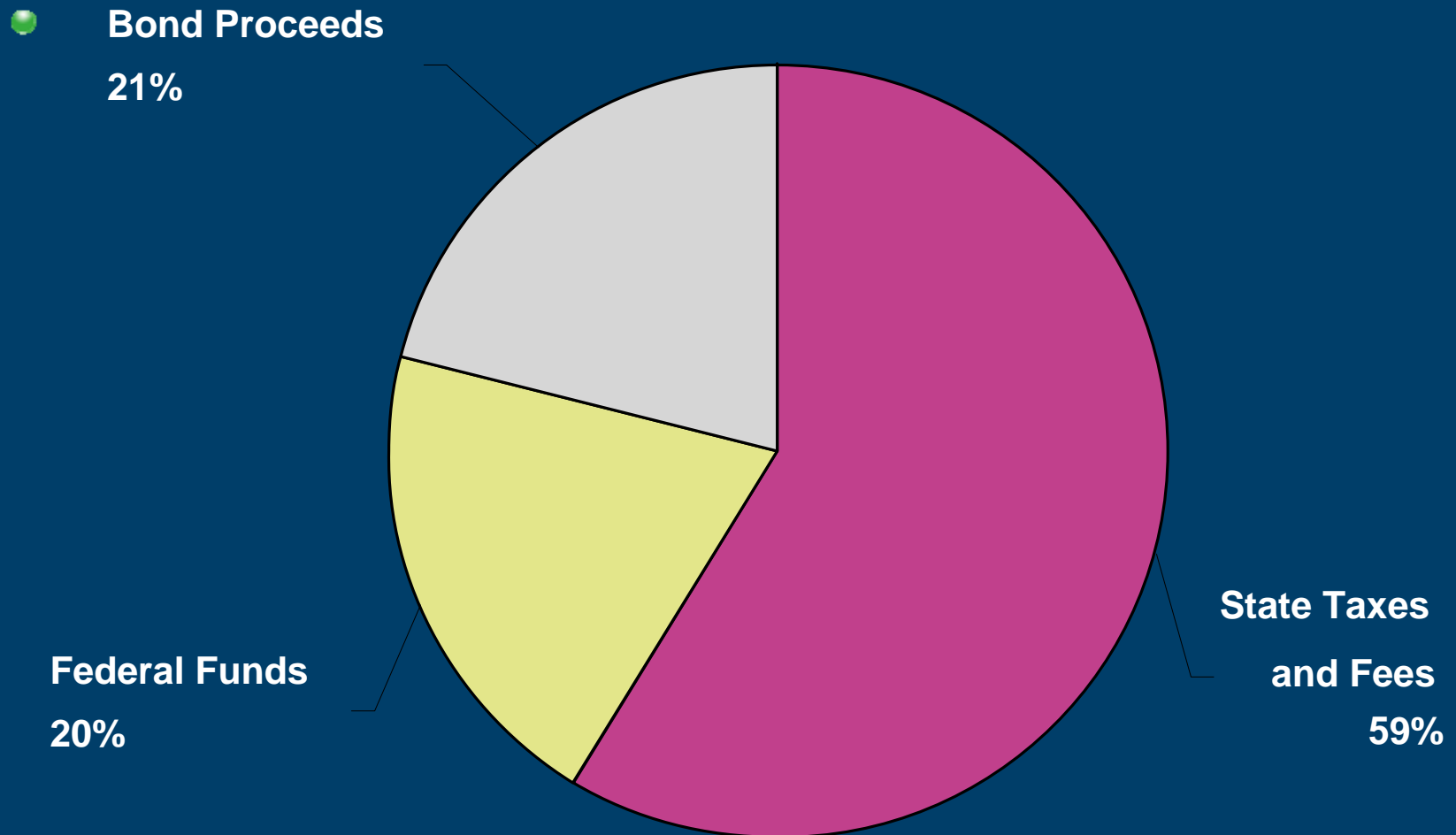
- Fuel tax
- Motor vehicle licenses, permits and fees
- Federal highway grants
- Local funds
- Bond proceeds
- 80% of treasury deposit earnings

Puget Sound Ferry Operations Account

- Fuel tax
- Registration and combined licensing fees
- 80% of treasury deposit earnings
- Concessions and other miscellaneous revenue

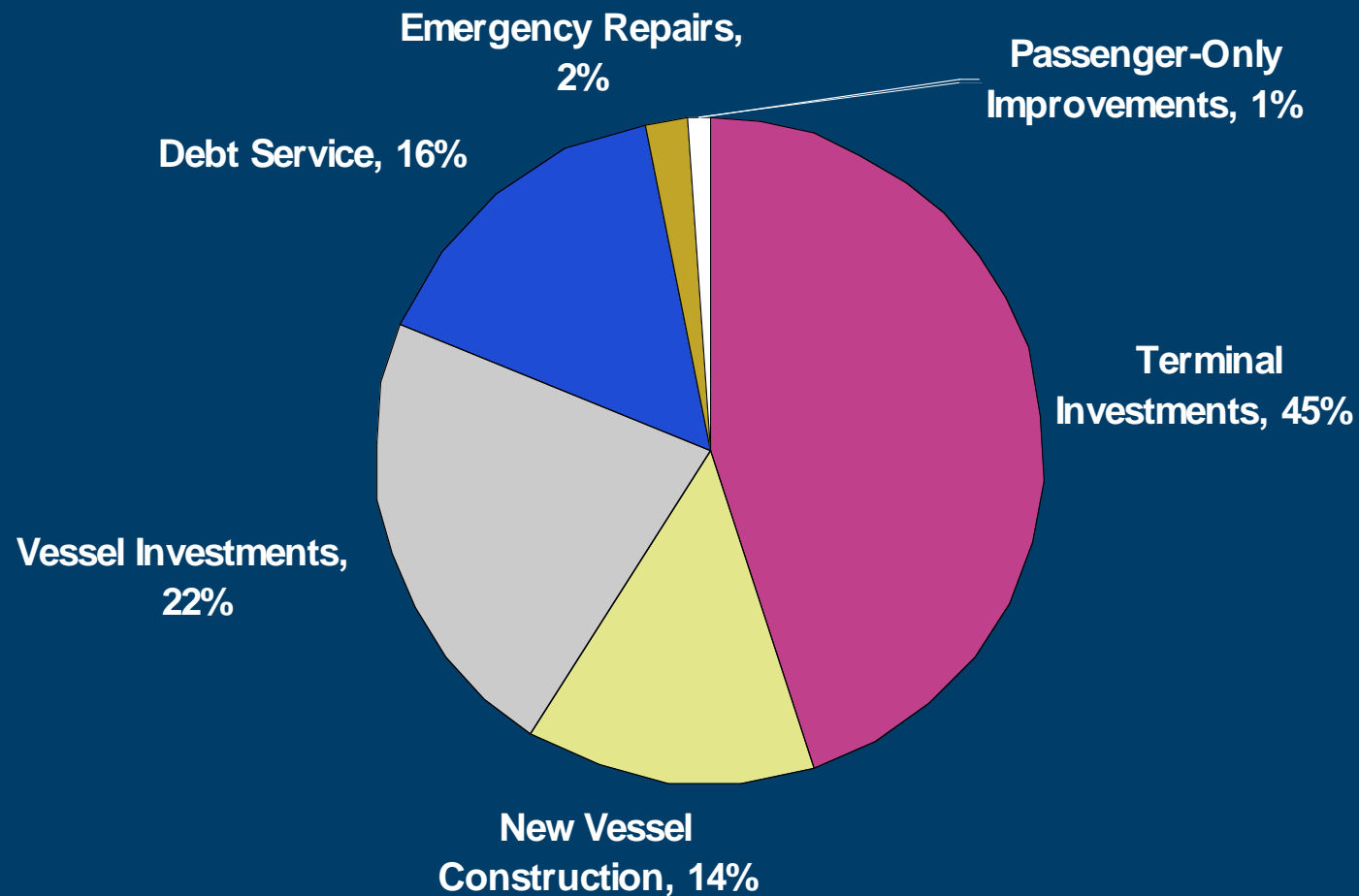
Sources of Capital Funds

2005-2007 Biennium



Use of Capital Funds

2005-2007 Biennium



Typology of Funding Sources

With Examples From JTC Long-Term Finance Study

- Direct User Fees
- Indirect User Fees
- General Taxes
- Local Options

Evaluation Criteria for Funding Sources

- Yield and reliability
- Economic efficiency
- Regressivity or impact
- Administrative effectiveness
- Public acceptance

Previously-Recommended Sources of New or Incremental Transportation Funds

● Taxes

- Index motor fuel tax and/or levy sales tax on gasoline
- Benefit assessment districts, property tax, or parcel tax
- Sales taxes (general and on vehicle parts)
- Tax increment revenues
- Tax on tourism/recreation-related business served by ferry

● Charges and Fees

- Tolls
- User fees based on VMT
- Freight container fee
- Development impact fees

Previously-Recommended Sources of New or Incremental Transportation Funds, cont.

● Ferry System Earned Revenue

- Increase fare revenue by increasing overall ferry ridership
- Increase fare revenue through fare restructuring
- Increase concessions revenue

● Other

- Regional funding
- Private-sector contributions/development partnerships

Scan of Other Ferry Systems

- **Alaska Marine Highway System**
- **BC Ferries**
- **San Francisco Bay Area passenger ferries (multiple operators)**
- **Scandlines**
- **Others considered and rejected from further study**

Key Findings from Ferry Scan

- Few true “peer” systems
 - But several innovative / relevant strategies
- Passenger volumes similar, but WSF carries more vehicles

	WSF	BC Ferries	Scandlines
Passengers	23.8	21.7	20.0
Vehicles	10.8	8.5	4.2
Vessels	28	26	34

Million passengers and vehicles per year

Key Findings from Ferry Scan

- WSF depends more heavily on fares, particularly vehicle fares, to fund operations
- Concessions are a substantially higher percent of operating revenues at peer systems

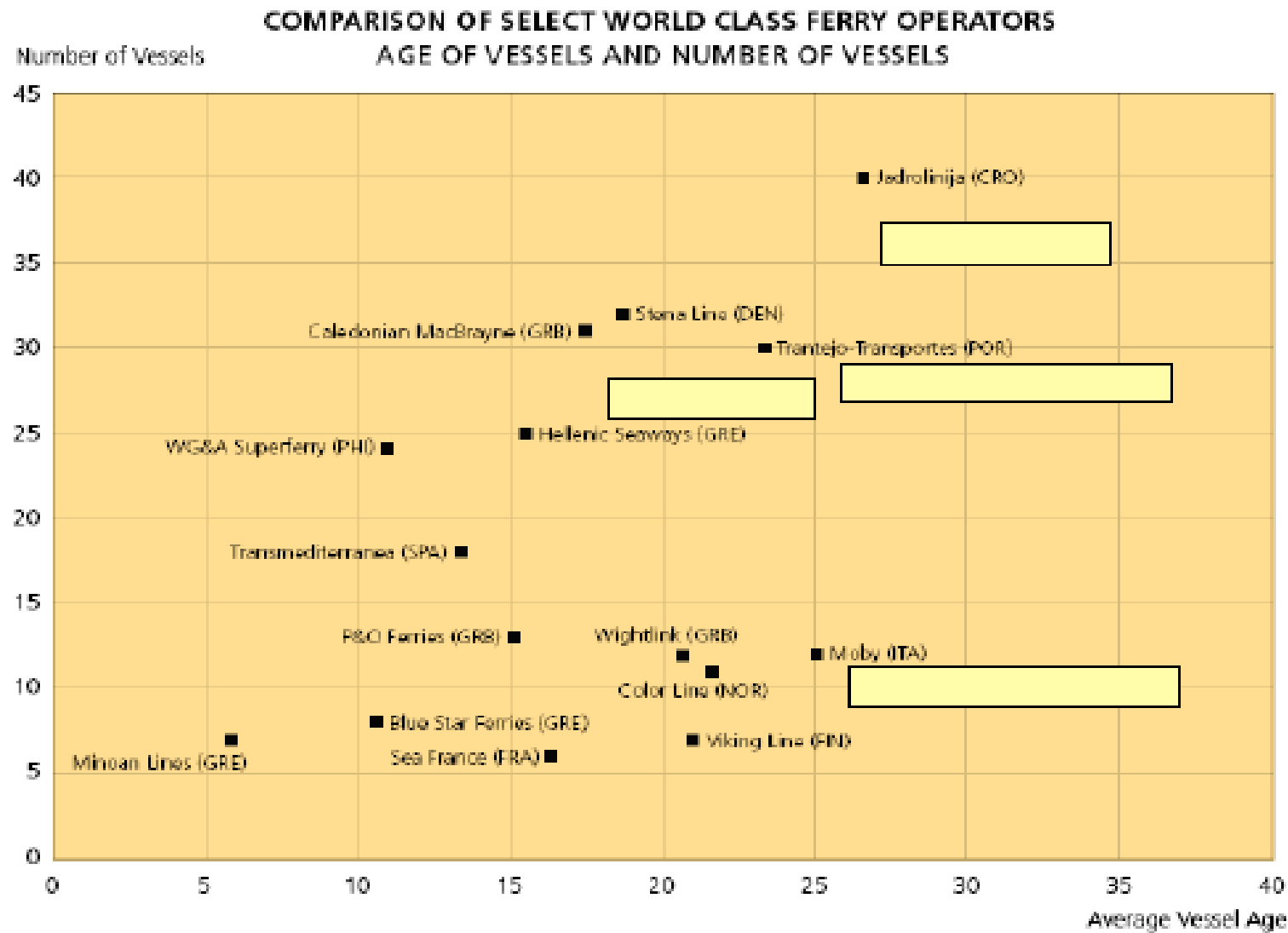
Main sources of operating revenue	WSF	BC Ferries	Scandlines
Fares	75%	61%	54%
Concessions/ catering	2%	16%	39%
Subsidies	23%	22%	2%

Key Findings from Ferry Scan

- Sources of capital funds also differ significantly by system
- BC Ferries, Scandlines heavily use operating revenue for capital

	WSF	BC Ferries	Scandlines
Operating revenue		■	■
Loans (private)		■	■
Bonds	■	■	
Federal Subsidy	■	■	■
State Subsidy	■	■	
Local Subsidy			

Vessel Age Comparison



Funding Strategies of Interest from Scan

- Demand and yield management via price differentiation
- Expanded concession offerings and other customer-related revenue sources
- Joint marketing initiatives
- More regular fare adjustments, surcharges
- Bridge tolls
- Local sales taxes, regional funds, and transit impact fees

Regulatory Framework

- **State funding sources currently allowed for WSF**
 - “18th Amendment Revenues” (vehicle fees and taxes)
 - Ferry fares for operating expenses
 - Ferry terminal facilities interim revenue warrants
 - Bonds
- **Regional funding sources**
 - County ferry districts
 - Public Transportation Benefit Areas
 - Transit taxes

Regulatory Framework, continued

- **Local funding sources authorized**
 - Motor vehicle and special fuel tax
 - Commercial parking tax
 - Public transportation system sales and use tax
 - Property tax road levy
- **Sources not currently authorized**
 - Bridge tolls

WSF Fare Policy is Evolving

- **Per RCW, WSF fare and pricing policy needs to:**
 - Recognize that different geographic markets may have different pricing policies;
 - Be developed with input from affected ferry users by public hearing and affected ferry advisory committees;
 - Consider user survey data;
 - Generate the amount of revenue required by the biennial transportation budget;
 - Consider fare impacts on users, capacity, and local communities;
 - Keep fare schedules as simple as possible; and
 - Provide options for using pricing to manage peak vehicle demand and increase off-peak ridership.

Summary of Phase 1 Findings

- **Since elimination of the MVET in 2000, WSF has struggled to fund its operating and capital needs**
- **Rising costs have exacerbated the funding gap in recent years**
- **Sources of operating funds need to be expanded or indexed to assure coverage of operating expenses**
- **Significant new sources of revenue to fund capital rehabilitation and replacement need to be identified**

Summary of Phase 1 Findings, continued

- **WSF should explore multiple ways to maximize revenue earned from system operations and property**
 - Several sources have been recommended in previous studies
- **Broad legal authority to tap revenue sources**
 - Though voter approval is required for many
- **Public acceptance is critical**

Selected Sources Recommended in Previous Studies

- **Taxes:**
 - Index gas tax / sales tax on gasoline
 - Taxes on locations / businesses benefitting from ferry service
- **Charges and fees:** Tolls, user fees based on VMT, container fees, impact fees
- **Ferry system revenues:** fare restructuring, concessions, increase ridership
- **Other:** regional funding, private sector contributions

Remaining Objectives of Long-Term Finance Study

- **Purpose: refine and evaluate financing alternatives**
- **Key remaining steps**
 - Evaluate range of financing options
 - Develop a selection of most promising options
 - Identify implementation actions
 - Present findings and recommendations to Transportation Commission in December 2008

Recommended Phase 2 Work Program

- Refine list of likely funding alternatives
- Define evaluation criteria and methods
- Conduct in-depth evaluation of funding sources
- Evaluate financial management tools
- Identify implementing actions

Additional Work Program Tasks

- Ferry user survey design and analysis support
- Stakeholder meetings and coordination with JTC and WSF studies
- Project management and coordination meetings
- Prepare reports and presentations
- Communicate findings and recommendations

DRAFT Phase 2 Schedule

- March 1 (or sooner) kick-off
- September 1 draft detailed evaluation results
- Fall 2008 review and refine evaluation, prepare draft recommendations
- December 1 draft final results and presentations ready
- December 31, final documents delivered

DRAFT Phase 2 Cost Estimate

- Ten month duration
- Approximately 2,500 labor hours
- Equivalent of 1.5 full time staff assigned to project
- Project Manager available 25% time, Deputy Project Manager assigned average of 50% time
- Direct expenses (travel, printing, etc.) 5% of total cost
- Initial cost estimate, \$450,000

Long-Term Ferry Finance Study **Discussion and Questions**